

April 14, 2015

To whom it may concern,

I am an American citizen living in Canada. I have lived in Canada since 1970, and I became a Canadian citizen in 2013 with the intention of relinquishing my American citizenship, not because I want to but because America is forcing me to. The following are my considered comments on the tax situation of Americans living abroad. I am sorry I cannot keep it short and pointed. These issues are too complex and the impacts too great. I have moved my summary points to the front for your convenience.

Summary

I hope I have shown that citizen-based taxation (CBT) is the wrong vehicle for addressing the persons who move abroad to avoid paying taxes. CBT hurts Americans, it hurts foreign economies, and it hurts America's image abroad:

- It defies common sense
- It employs the same techniques against citizens (jurisdictional arbitrage) that America says criminals employ against it.
- It pirates money from foreign economies.
- It deigns foreign social policies.
- It hurts American citizens (and their foreign families) financially.
- It invades American and non-American privacy.
- Americans abroad live in fear.
- It spurns entrepreneurship.
- It is not congruent with services received and access to filing help.
- It hurts America's image and foreign relations.

Individual Restrictions and Impacts

I pay high Canadian taxes. My marginal income tax rate is 47% and I pay a VAT of 15% on non-essential goods. Try adding 15% to automobile purchases in America! And I cannot apply my VAT against your income taxes.

Many of Canada's tax savings vehicles are not recognized by America -- my whole life insurance policy and former private pension plan -- simply because they are not registered in America. The vehicles are identical with American counterparts except for this minor registration fact. I was required by my employer to participate in the pension plan, a condition of employment, and I bought my insurance policy 30 years ago when nobody dreamed such laws existed. I am now searching for ways and means of reducing the impacts such as borrowing against my cash savings and investing in recognized RRSPs, except I am told the IRS

will likely consider this tax avoidance and penalize me. Making arbitrage moves to minimize taxes while living in America would be easy, but America seems to think such techniques are criminal if conducted abroad. There are many other tax savings vehicles America does not recognize including capital gains of private homes and earnings in child education funds. I now have to question all my investments and try to figure out how to move funds around that won't cost me in Canada while avoiding financial ruin due to America's taxes – many long term home owners in big cities are facing this dilemma. Their million dollar homes scraped together while suffering high urban cost of living is often a person's only source of retirement. Many are facing several hundred thousand dollar tax hits they never dreamed of or planned for.

I do get the foreign earned income exclusion (FEIE), but I still have to dance and sing to avoid paying extra taxes. All of our free money now goes to my wife to reduce potential FBAR penalties I might incur out of ignorance of American laws. Any non-registered investments are made by my wife. And it's not like we have any choice: as a citizen abroad, I cannot invest in foreign mutual funds, despite being a Canadian citizen, and only American mutual funds with restrictions, despite being an American citizen. If we want to maximize our meager investments, it has to be in her name. Thank God I'm not married to a fellow American!

Preparing my tax return and FBAR each year is a nightmare. There are no easy guidelines for preparing a foreign return. I have had to scour various expatriate forums on the internet to figure things out, and every year I lose sleep over the thought that I missed something or did something wrong and I'll get a bill in the mail asking for money I don't have. Right now, if I got a tax bill, I'd consider crossing the border and demand to be arrested. Make the whole mess public. Run it up to the Supreme Court. I'm not swimming in money here, and I will not put my family at risk to pay a bill you have no rights to.

Conclusion: These tax laws cripple my ability to minimize taxes, even with the FEIE, and the annual preparation is numbing.

Entrepreneurship

I have been unemployed for a couple of years, and I have considered contracting my services, maybe even starting an IT consulting company of my own. Everybody I consult with says to renounce my American citizenship first: the filing burdens are outlandish and any benefits I may receive in Canada from incorporating will be wiped away by American tax laws. I cannot speak intimately of specifics, but I hear much rumbling of social security taxes, medicare taxes, and excessive administration costs. The overwhelming advice has been to not start a business because I will never be able to compete. The overwhelming sentiment is that many of the estimated one million American businesses are now struggling to exist because of these laws. I have stopped even considering such steps until I am free of these citizenship burdens.

Conclusion: America is stifling small business viability of the estimated one million small American businesses abroad.

FBAR

I file an FBAR report which lists all of my financial accounts and their highest balance for the year. This includes joint accounts with my wife and business accounts. I am required to share private financial information of my foreign wife and a non-profit organization I have signing authority with. I am a professional accountant, and I am not sure whether my society even recognizes these practices as ethical. I am planning on contacting CPA Canada, but to me it is a clear ethical conflict. Many Americans have joint signing authority over corporate, non-profit, and charitable organizations. This FBAR report also comes with at risk of extreme penalties, in some cases for not reporting money I don't even own.

My wife and I now separate our money but for one account, and we keep that minimal. She has sworn to divorce me should I ever supply her name to the IRS or Treasury. Violate American laws or get divorced? It is a common theme I hear in expatriate discussions in social media.

Conclusion: the consequences of misfiling are enough to make me seek relinquishing my citizenship. The ethics make it a no-brainer. It also strains my marriage.

Reaction To Filing Requirements

Most of us abroad initially react with disbelief. "No, that's just stupid," is the typical response when I discuss taxes with fellow Americans or Canadians. And when I tell them that severe penalties loom, they shake their heads and walk away, often accompanied with expletives. I can only shake my head. Unsubstantiated statistics say that only 450k tax returns are being filed for the estimated 7.6 million of us, maybe a 10% compliance rate. You know more than me. The point I want you to understand is that every one of us feels that taxing us is illogical, burdensome, and wrong. I will discuss later why it is wrong, but the reactions of us abroad make it clear – this is a tax that does not belong in international democracies.

Jurisdictional Arbitrage

Tax cheats use jurisdictional arbitrage, that is, wealthy individuals and corporations relocate to jurisdictions where tax burdens are minimized. All arbitrage results from the natural desire to minimize expenses and maximize profits, yet such practices avoid patriotic tax obligations. We all hopefully agree that it is a problem that needs to be appropriately addressed. People that leave America with their money to avoid taxes are looked down upon by us just as fiercely as they are by you, one of our governments.

America has attacked this problem with citizen-based taxation policies (CBT) – citizens must file income taxes no matter where they reside. The intention is to eliminate the tax avoidance opportunities of such practitioners. America basically says “fine, live abroad, but if your tax rate is lower than America’s, America wants the difference.” On the surface, this is fine and good. It removes incentive to remove capital from America.

In reality, it is the very same technique tax cheats use. But in many cases, expatriates end up paying far more tax than they would have in America as there are taxes not applied as deductions when filing. Boris Johnson of London UK is a prime example. He was levied over \$100k in taxes on the sale of his private home, yet he was never able to deduct mortgage interest nor apply his previous years’ accumulated higher income tax payments against it. America picks and chooses, applies jurisdictional arbitrage to gaps, and makes it near impossible for expats to plan their taxes.

Income tax systems are too complex to apply such a simple rule. What is income? What are the types of income? How should each type of income be taxed? Every country interprets these questions differently and applies tax rules to them differently. For example, in Canada there needs to be intention to earn money. Windfalls are not taxed as income because of lack of intention and commitment to earn it. But America sees all money transfers as income. I am a writer. Should I ever win, for example, Canada’s Governor General’s literary prize (The GG) then that \$50,000 would be tax-free in Canada yet taxed by America. Such a decision not only belittles Canada’s own internal tax policies of helping the struggling writer but would be a cultural gaff of enormous impact for America. Other instruments that fall through these cracks are private pensions, whole life insurance, lottery winnings, and more.

Conclusion: America skims the tax differences, takes advantages of jurisdictional tax policies. America gains by the very same practice the so-called ‘tax cheats’ gain by – jurisdictional arbitrage. We the ordinary citizens are mere collateral damage.

National Economics

I am an American citizen, but I am also a Canadian citizen, my wife is a Canadian citizen, my children are Canadian citizens (and not American citizens, thank God!). I earn a living here, pay taxes here, buy nearly everything here, have lived here since I was nine, and will likely die here.

Every dollar you take from me is a dollar withdrawn from the Canadian economy. It is decreased spending, increased debt, and lost jobs for Canada all to the benefit of America. I can call it nothing but piracy, a financial world war on all nations.

I want to ask you to reverse the scenario. Say all countries implemented CBT. There are more than 40 million foreign nationals living in America. How would America feel about

Russians, Iranians, Chinese, French, North Koreans, Mexicans, and many more countries extracting money from the American economy through income taxes? There are 11 million Mexican nationals living in America, maybe more if you add the illegal population. Can you imagine the outcry if these citizens and residents had to pay taxes to Mexico? In such a system, by America's own citizenship laws, President Obama would have to file taxes with Kenya. If the implications are not obvious, then I guess I'm wasting my time.

National Objectives

America, Canada, and all countries but the worst implement social policies such as health care, social safety networks, and communal services. Tax policies are often targeted at such groups. I can claim health care expenses against my Canadian taxes. I don't know if I can in America, but if push comes to shove, I will try. Charitable organizations, small-cap investment breaks, retirement savings, and even housing incentives have been spurred through tax breaks.

The above mentioned literary award can be seen as a tax policy to aid artists – “you people struggle so hard to make a buck and your work is so vital to humanity that we'll give you a break on awards and grants. “ It is national policy that America completely discounts – “too bad pal, you earned money and you have to pay.” It is a slap in the face to foreign countries' policies within their own borders. It is foreign relations at its very worst: it hurts foreign citizens, it is underhanded, and everybody at the grass roots level knows about it. It hurts America's image more than will ever show in media or at G20 roundtables.

Emotional Impacts

I live in fear. My sense of justice has been violated. America – a land of individual freedom as taught to me by my parents and in my early schooling, a land of laws, treats me with complete disdain, and I am beyond flabbergasted. Every day I search for hope that America will come to its senses, but then it is squashed by continued ignorant rhetoric in media and by myopic homelanders touting the success of catching tax cheaters. It is not something I can live with. Treating me as a criminal is one thing, but justifying it as American is untenable. Tax season is upon me, and it will once again be super-stressful. I cannot live like this.

Access to Services

I have very little access to American tax services. I've found one H&R Block person in my province who prepares returns, but they want \$400 a shot. My questioning revealed no formal training on the individual's part. I've checked with various accounting firms, but it's an area of practice most have no training in. The firms that do offer services start their pricing around \$2,000.

I cannot call the IRS toll free.

I get zero American government service: roads, schools, police, Social Security, and hosts of legislated standards and regulations. I am off the entire American government's radar except the CIA's and IRS's. Should the Canadian government be overthrown by rebels, ala Yemen, I obviously can expect no relief.

I am tired of this patriotic card. Citizenship does not come with a price tag.

Foreign Image

Face it. The world hates America. It's the playground bully. If America wants to change world opinion, it has to treat the world with respect. How you do that is your decision, but let me say that treating the 7.6 million expats as criminals is not helping matters. It is bad enough we have to defend outrageous gun laws, inhumane health care laws, and sub-standard social services – compared to the countries we live in – but now with your hand in our pocket, we have to defend these invasive tax policies? We expats are growing to hate America more than most foreigners do.

We should be ambassadors. We should be plenipotentiaries with boots on the ground paving the way for world peace and economic growth. We should be standing as proud Americans, walking the streets unafraid to wear the red, white, and blue. Yet when the anti-American discussions arise, I'm usually the first one to throw gas on the fire. When I am out with friends and the topic of America comes up, I say America's treatment of its citizens abroad is Draconian and don't you for one second ever trust America. Sorry, but that's how we all are growing to feel. Is this really how you want citizens behaving? Can you really afford it?

Sincerely,

John Hanson

Canadian-American citizen